



## Is Shopify Inc. Trading at a Discount After Falling Nearly 30%?

### Description

At the end of July, Motley Fool Canada contributor Jacob Donnelly made the case that you shouldn't buy **Shopify Inc.** (TSX:SH)([NYSE:SHOP](#)) until the end of the company's lockup period.

That time has now come, and just as Mr. Donnelly predicted, Shopify's stock price has been falling in response. The U.S.-listed shares are once again trading for less than US\$27, which is about where they were after their first day of trading (even though Shopify has reported outstanding results in the meantime). So does that mean you should scoop up Shopify shares?

### Some outstanding characteristics

Shopify's detractors like to point out that the company doesn't turn a profit. For instance, Shopify's net loss in its most recent quarter totaled US\$4.7 million, or US\$0.06 per share.

But underneath the hood, it becomes clear just how attractive Shopify's business model is. To start, Shopify's customers pay monthly subscription fees and tend to be extremely loyal. This gives the company a very reliable revenue base on which to grow. And as new customers are added, much of that additional revenue falls straight to the bottom line, with gross profit margins exceeding 50%.

It gets better. As a software company, Shopify has limited capital requirements. True, it has had to expand its offices to accompany its growing headcount. But the company doesn't have to open any new factories or storefronts. This should allow Shopify to grow very quickly.

### Still quite risky

This is far from a sure thing for a couple of reasons. First of all, the company faces stiff competition from companies such as BigCommerce and Volusion. And while Shopify is still the dominant player, the company's lead is certainly not indefensible.

More importantly, Shopify is still very expensive by most standards. To illustrate, the company expects revenue to total roughly US\$200 million this year. And after backing out cash, its market value is a staggering US\$1.8 billion. Thus, even if Shopify earned a profit margin of 10% (which it doesn't), the

stock would still be trading for 90 times earnings.

### Should you buy the shares?

As the disclosure section at the bottom states, I still have not bought shares of Shopify. Part of the reason is that I hold a very limited number of stocks.

But if you're aiming for a more diversified portfolio and prefer to go with Canadian-listed names, Shopify is a very compelling option. After all, Canada's stock market does not have many top-quality companies to invest in these days, making life very difficult for the country's investors. In any case, Shopify probably makes for a better investment than most energy and mining stocks.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)

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